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How Qaddafi Raised the Price of Oil

The story can now be told how Libya's Muammar Qaddafi backed down the oil companies and pushed up oil prices in the early 1970s, thus kicking off the process that was to unravel the economy of the Western world.

There is irony today in the story. For falling oil prices have knocked the economic props out from under Qaddafi. Oil constitutes 99 percent of Libya's exports. With oil income down by more than half, there's no longer enough money to finance all of Qaddafi's schemes. So the Libyan people, pinched by shortages, are beginning to blame him for squandering their oil inheritance.

From the day Qaddafi seized power in Libya, his revolutionary goal was to lay hands on the properties of the oil companies. In those days oil-producing countries saw higher revenue as a function of higher production.

But not Qaddafi. He convened Libya's 21 foreign oil producers on Jan. 20, 1970. His message, conveyed as much by a stern, peremptory demeanor as his words, was that things were to be different.

This time the corporations were confronted not by soft princes wheedling for higher production quotas but by lean revolutionaries who threatened to stop all production. Qaddafi was willing to risk all, he said, and would confidently pit the Arab people's capacity to endure the loss of necessities against the oilmen's stomach for forgoing luxuries.

There was a cryptic, scriptural roll to his message that was impressive and forbidding. "People who have lived for 5,000 years without petroleum are able to live without it even for scores of years longer to reach their legitimate right," he said.

At the time of the Qaddafi revolution, there was pending before then-president Richard Nixon an offer, indeed an importuning, from the shah of Iran to sell the United States one million barrels a day of Iranian oil for 10 years at the fixed price of $1 a barrel—about 40 percent of the price Qaddafi demanded.

Qaddafi had to be forceful enough to wring epic concessions from the oil companies without crossing the invisible tripwire that would rouse the consuming nations into the kind of mobilization that only two years earlier had routed the combined Arab states.

Qaddafi's tactics, audacious in their totality, were succession of testing probes, of retractable bluffs, of muted confrontations, of small penetrations of selected weak points, with a pause every step of the way to take the pulse of resistance. He would resume only when no counterattack surfaced, becoming truly bold only in the eighth month of the campaign after a dozen tests had shown that there never would be a counterattack.

Besides the failure of the oil community to rise to any response to Qaddafi's campaign, there were also exhibitions of noncombativeness in Washington. Thus the desert dictator, unloved even by most of the Arab oil world and vulnerable to boarding parties from the U.S. Sixth Fleet, thumbed his nose at the Western powers and launched the upward spiral of oil prices.

How did this desert tribesman succeed in defying the international oil industry in the face of inauspicious world market conditions? A hint is contained in intelligence reports that identify the financial freebooter Robert Vesco as a secret adviser to Qaddafi. Vesco was then on the lam from the U.S. Justice Department and, according to the intelligence reports, slipped into Libya frequently to consult with Qaddafi.